

KNM GROUP BERHAD

(Company No:521348-H)
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS FOR THE PERIOD ENDED 31 DECEMBER 2007 (Unaudited)

1. CONDENSED CONSOLIDATED INCOME STATEMENTS (Unaudited)

	Individual Quarter		Cumulative Year to date	
	3 months ended 31.12.2007 RM'000	3 months ended 31.12.2006 RM'000	31.12.2007 RM'000	31.12.2006 RM'000
Contract revenue	<u>318,767</u>	<u>248,009</u>	<u>1,230,116</u>	<u>908,987</u>
Operating profit	65,290	19,864	223,024	128,956
Financing costs	(383)	(1,346)	(7,725)	(10,060)
Interest income	177	222	1,302	1,176
(Goodwill written off)/Negative goodwill	-	(6,861)	(1,050)	26,440
Share of profit of jointly controlled entity	-	1,033	-	1,033
Profit before tax	<u>65,084</u>	<u>12,912</u>	<u>215,551</u>	<u>147,545</u>
Tax expense	(13,153)	11,716	(28,882)	(9,356)
Net profit for the period	<u>51,931</u>	<u>24,628</u>	<u>186,669</u>	<u>138,189</u>
Attributable to:				
Equity holders of the parent	51,932	25,020	188,326	132,506
Minority interest	<u>(1)</u>	<u>(392)</u>	<u>(1,657)</u>	<u>5,683</u>
	<u>51,931</u>	<u>24,628</u>	<u>186,669</u>	<u>138,189</u>
Earnings per share:				
- Basic (sen)	5.00	2.45	18.14	12.97
- Diluted (sen)	4.89	2.38	17.75	12.60

The notes set out on pages 5 to 15 form an integral part of and should be read in conjunction with this interim financial report

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2. CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	NOTE	As at 31.12.2007	As at 31.12.2006
		RM'000	RM'000
Assets			
Non-current assets			
Intangible Assets		6,672	4,233
Property, plant and equipment		466,987	393,955
Other investment		2,474	2,374
Prepaid lease payments		15,856	11,569
Deferred Tax Asset		37,664	49,087
		<u>529,653</u>	<u>461,218</u>
Current assets			
Inventories		62,185	24,756
Contracts work in progress		337,237	211,029
Trade and other receivables		211,866	227,467
Cash and cash equivalents		104,023	91,225
		<u>715,311</u>	<u>554,477</u>
TOTAL ASSETS		<u>1,244,964</u>	<u>1,015,695</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		261,646	128,891
Reserves		298,033	261,439
		<u>559,679</u>	<u>390,330</u>
Minority interest		198	14,702
Total Equity		<u>559,877</u>	<u>405,032</u>
Non-current liabilities			
Long term payable		33,345	28,677
Long service leave liability		2,832	2,535
Borrowings	B9	45,007	42,948
Deferred taxation		49,839	56,365
		<u>131,023</u>	<u>130,525</u>
Current liabilities			
Payables and accruals		286,146	295,257
Customers advance for contract work in progress		22,646	377
Borrowings	B9	220,217	156,575
Current tax liabilities		25,055	27,929
		<u>554,064</u>	<u>480,138</u>
Total liabilities		<u>685,087</u>	<u>610,663</u>
TOTAL EQUITY AND LIABILITIES		<u>1,244,964</u>	<u>1,015,695</u>
Net assets per share attributable to equity holders of the parent (RM)		<u>0.53</u>	<u>1.51</u>

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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD
 ENDED 31 December 2007
 (Unaudited)**

	← Attributable to equity holders of the parent →							Total equity RM'000
	No. of Shares 000	Share Capital RM'000	← Non-Distributable →		Distributable Reserve (Accumulated Loss) / Retained Profit RM'000		Total RM'000	
Share Premium RM'000			Revaluation and Other Reserve RM'000					
As at 1 January 2006	149,612	74,806	3,638	7,109	71,866	157,419	-	157,419
Acquisition of equity interest in subsidiary	-	-	-	-	-	-	9,107	9,107
Issue of shares pursuant to:								
- ESOS	7,600	3,800	12,501	-	-	16,301	-	16,301
- Private Placement	15,342	7,671	84,382	-	-	92,053	-	92,053
- Bonus issue	85,228	42,614	(42,614)	-	-	-	-	-
Currency translation differences arising in the period	-	-	-	(897)	-	(897)	(88)	(985)
Expenses not recognised in income statement								
- Listing expenses	-	-	(2,070)	-	-	(2,070)	-	(2,070)
Share-based payments	-	-	-	541	-	541	-	541
Net Profit for the year	-	-	-	-	132,506	132,506	5,683	138,189
Dividend paid	-	-	-	-	(5,523)	(5,523)	-	(5,523)
As at 31 December 2006	257,782	128,891	55,837	6,753	198,849	390,330	14,702	405,032
Acquisition of minority interest	-	-	-	-	-	-	(13,286)	(13,286)
Issue of shares pursuant to:								
- ESOS	11,663	3,232	1,477	-	-	4,709	-	4,709
- Bonus issue	259,046	129,523	(56,858)	-	(72,665)	-	-	-
- Share Split	518,092	-	-	-	-	-	-	-
Transfer to share premium for share options exercised	-	-	375	(375)	-	-	-	-
Derecognition of deferred tax liabilities arising from RPGT exemption	-	-	-	4,074	-	4,074	-	4,074
Expenses not recognised in income statement								
- Share issue expenses	-	-	(260)	-	-	(260)	-	(260)
Share-based payments	-	-	-	125	-	125	-	125
Currency translation differences arising in the period	-	-	-	(14,673)	-	(14,673)	439	(14,234)
Net Profit for the period	-	-	-	-	188,326	188,326	(1,657)	186,669
Dividend paid	-	-	-	-	(12,952)	(12,952)	-	(12,952)
As at 31 December 2007	1,046,583	261,646	571	(4,096)	301,558	559,679	198	559,877

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD END

31 December 2007

(Unaudited)

	31.12.2007	31.12.2006
	RM	RM
	'000	'000
Net cash generated from/(used in) operating activities	75,434	(34,318)
Net cash used in investing activities	(95,643)	(18,934)
Net cash generated from financing activities	59,822	95,652
Net increase in cash and cash equivalents	<u>39,613</u>	<u>42,400</u>
Cash and cash equivalents at beginning of period/year	58,049	15,649
Cash and cash equivalents at end of period/year	<u><u>97,662</u></u>	<u><u>58,049</u></u>
Cash & bank balances	79,808	63,693
Deposits with financial institutions	1,141	6,740
Deposits with licensed banks	<u>23,074</u>	<u>20,792</u>
	104,023	91,225
Deposit pledged to licensed bank	<u>-</u>	<u>(19,244)</u>
	104,023	71,981
Bank overdraft	<u>(6,361)</u>	<u>(13,932)</u>
	<u><u>97,662</u></u>	<u><u>58,049</u></u>

The notes set out on pages 5 to 15 form an integral part of and should be read in conjunction with this interim financial report

Notes to the quarterly Interim Financial Report – 31 December 2007

PART A: EXPLANATORY NOTES AS PER FRS 134

A1. Basis of preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirement of FRS 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2006. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2006.

A2. CHANGES IN ACCOUNTING POLICIES

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2006 except for the adoption of the following new/revised Financial Reporting Standards (“FRS”) effective for financial period beginning 1 January 2007:

FRS 124	Related Party Disclosures
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The Group has not adopted FRS 139 Financial Instruments: Recognition and Measurement as its effective date has been deferred.

The adoption of the abovementioned FRSS does not result in significant changes in accounting policies of the Company.

A3. Qualification of annual financial statements

There were no audit qualifications on the annual financial statements of the Company for the year ended 31 December 2006.

A4. Seasonal and cyclical factors

The Group’s business operation results were not materially affected by any major seasonal or cyclical factors.

A5. Unusual nature and amount of items affecting assets, liabilities, equity, net income or cash flows

There were no unusual nature and amount of items affecting assets, liabilities, equity, net income or cash flows for the current quarter and financial year to date.

A6. Material changes in estimates

There were no material changes in estimates of amount reported in the current quarter.

A7. Issuances and repayment of debt and equity securities

There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current financial year to date other than those stated below:

	RM'000
Balance of ICP/IMTN outstanding as at 1 January 2007	108,000
ICP/IMTN withdrawn	<u>92,000</u>
Balance of ICP/IMTN outstanding as at 31 December 2007	<u><u>200,000</u></u>

As at 31 December 2007, the amount outstanding for Islamic Commercial Papers (“ICP”)/Islamic Medium Term Notes (“IMTN”) is RM200.0 million out of the limit of RM300.0 million, mainly used for repayment of bank borrowings, and working capital. Up to RM150 million is fully underwritten by Malayan Banking Berhad & AMInvestment Bank Berhad and has a tenure of 7-years from the date of issuance.

Options relating to 15,127,200 and 5,034,080 ordinary shares of RM0.50 each were granted to eligible employees on 25 August 2004 and 7 December 2005 at an option price of RM1.63 and RM2.88 per share with expiry date on 24 August 2009 pursuant to the Company’s Employees’ Share Option Scheme (ESOS). At the date of this report, 12,649,800 shares were exercised and 145,350 share options were lapsed primarily due to staff resignation. After taking into account these new shares allotted, the issued and paid up capital of the Company increased to 1,048,049,200 and total number of unexercised share options as at date of report is 23,131,520.

A8. Dividend Paid

No dividend was paid during the quarter under review.

A9. Segment information

Segmental analysis of the revenue and result:-

Business Segment:	Revenue	Operating Profit
	12 months ended 31.12.2007 RM'000	12 months ended 31.12.2007 RM'000
Process equipment	1,230,109	223,019
Others	<u>7</u>	<u>5</u>
	<u><u>1,230,116</u></u>	<u><u>223,024</u></u>

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Geographical segments:	Revenue	Operating Profit
	12 months ended 31.12.2007 RM'000	12 months ended 31.12.2007 RM'000
Malaysia	668,144	152,741
Overseas	561,972	70,283
Total	1,230,116	223,024

A10. Valuation of property, plant and equipment

Property, plant and equipment of the Group are stated at cost/valuation less accumulated depreciation and accumulated impairment losses where applicable.

There is no revaluation of property, plant and equipment during the period under review.

A11. Material events subsequent to the end of the interim period

There was no material event subsequent to the end of the reporting period and up to the date of issuance of this report other than those disclosed under item no. B8.

A12. Changes in the composition of the Group

There were no changes in the composition of the Group for the current quarter and financial year to date other than those disclosed in item no. B8.

A13. Changes in contingent liabilities

There were no material changes in contingent liabilities for the Group as at the date of this announcement.

A14. Capital commitments

	Approved and contracted for RM'000	Approved but not contracted for RM'000
Property, plant and equipment	120,415	141,749
Investment	2,043	81,882
	122,458	223,631

A15. Related party transactions

Significant related party transactions for the financial year to date are as follows:

	RM '000
Inter Merger Sdn Bhd *	
- Office rental, related charges and administrative expense	1,845
<i>* a company in which, Mr.Lee Swee Eng and Gan Siew Liat are directors</i>	
I.M.Bina Sdn Bhd **	
-General construction and civil works	18,638
Inter Merger Trading Sdn Bhd **	
-Supply of production materials and fixed assets	149
<i>** a company in which Inter Merger Sdn Bhd is a holding company</i>	
Hamilton Drive Properties Pty Limited ***	
-Rental of land for manufacturing facility	245
<i>*** a company in which Mr John Kenneth Rundell is a director</i>	

PART B: ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA LISTING REQUIREMENTS

B1. Review of performance

The Group achieved revenue of RM1.23 billion and profit before tax and minority interest of RM215.55 million for the current period ended 31 December 2007. The revenue increased mainly due to the additional manufacturing capacity and job orders secured.

B2. Variation of results against preceding quarter

The Group's revenue of RM318.77 million and net profit after taxation and minority interest of RM51.93 million for the fourth quarter ended 31 December 2007 were lower by 17.49% and 14.87% to third quarter's revenue of RM386.33 million and net profit after taxation and minority interest of RM61.00 million respectively. The decrease in net profit after taxation was mainly due to lower revenue recognised for the period arising out of festive seasons, however profit after taxation margin showed improvement.

B3. Current year prospects

The Board is confident that the Group's results for the year 2008 will continue to be profitable.

B4. Profit forecast

Not applicable as no profit forecast was published.

B5. Tax expense

	12 months ended 31.12.2007 RM'000	12 months ended 31.12.2006 RM'000
Income Tax expense :-		
Current	21,704	15,205
Prior period	(2,028)	(2,997)
Deferred tax	9,206	(2,852)
	<u>28,882</u>	<u>9,356</u>

The Group's effective tax rate is lower than the statutory tax rate mainly due to the availability of certain tax incentives.

B6. Unquoted investments and properties

The Group has not made or disposed any investments in any unquoted investments and properties for the current quarter and financial year to date.

B7. Quoted and marketable investments

There were no investments or disposals in quoted and marketable securities during the current quarter and financial year to date.

B8. Status of corporate proposals announced

(1) KNM Corporation (KNM Corp), an indirect wholly-owned subsidiary of the Company received a confirmation on 21 February 2008 from Fraser Milner Casgrain LLP of 2900 Manulife Place, 10180-101 Street, Edmonton, Alberta, Canada T5J 3V5, the Company's appointed solicitors in Edmonton, Alberta, Canada that KPS Inc was incorporated on 20 February 2008 as a wholly-owned subsidiary of KNM Corp. KPS Inc is intended to be involved principally as an investment holding company in Canada.

KPS Inc has not commenced operations since its date of incorporation and has an authorized, issued and paid up share capital of 100 Class A shares of Canadian Dollars (CAN) 0.10 each. KNM Corp is the sole subscriber of the 100 Class A shares.

(2) KNM Process Systems Sdn Bhd (KNMPS), a wholly-owned subsidiary of KNM Group Berhad (KNM or Company) had on 12 February 2008 entered into a Memorandum of Agreement (MOA) with David K Stevens (DKS), a patent holder for sulphur removal and recovery technology for oil and gas applications, with over 20 years' relevant experience (DKS). Under the MOA, KNMPS and DKS will co-operate on an exclusive basis (Joint Venture) to set up a joint venture company in the United States of America known as KPS Technology & Engineering LLC (KPS) to undertake sulphur removal and recovery and provide services to clients in the oil, gas and energy/power industries in relation to sulphur removal and recovery technology.

The MOA is not subject to any approvals from regulatory authorities in Malaysia or elsewhere.

(3) KNM Group Berhad had on 4 February 2008 announced that the Company is proposing to undertake the following exercises:-

- (a) Proposed Renounceable Right Issue of up to 267,807,215 new ordinary shares of RM0.25 each in KNM ("KNM Shares") on the basis of one (1) new KNM Share for every four (4) existing KNM Shares held on an entitlement date to be determined later at the indicative issue price of RM4.00 per right share
- (b) Proposed bonus issue of up to 2,678,072,150 new KNM shares on the basis of two (2) new KNM share for every share held after the proposed right issue on an entitlement date to be determined later ("Proposed Bonus Issue")
- (c) Proposed issuance of up to United States of America Dollar ("USD")350 million (or its Euro Dollar equivalent) Bonds, exchangeable into new KNM Shares ("exchangeable bonds") ("Proposed exchangeable bonds issue")
- (d) Proposed increase in the Authorised share capital of KNM ("Proposed increase in Authorised Share Capital"); and

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- (e) Proposed amendment to the Memorandum and articles of association (“Proposed M&A Amendment”)
- (4) KNM Group Berhad had on 22 January 2008 proposes to seek its shareholders’ approval for the authority to purchase and/or hold up to ten per centum (10%) of its issued and paid-up ordinary share of RM0.25 each (“Shares”) for the time being listed on Bursa Malaysia (“Bursa”)(“Proposed Share Buyback”).
- (5) KNM Group Berhad had on 9 January 2008 announced that the Company has entered into a Master Agreement (MA) with Ellimetal International N.V. (Vendor) to acquire 100% equity interest in its wholly owned subsidiary Ellimetal NV (Ellimetal) for a consideration sum of Euro 20 Million (Consideration).

The Proposed Acquisition is subject to:-

- (a) The Purchaser and the Vendor enter into a definitive Sale and Purchase Agreement
 - (b) Completion of legal and financial due diligence on Ellimetal to the satisfaction of the Purchaser
 - (c) Shareholders’ (if necessary) and Board of Directors’ approval of the Purchaser
 - (d) Regulatory approvals in Malaysia, Belgium and elsewhere (if required), including approvals of other relevant authorities, where applicable.
- (6) KNM Group Berhad had on 12 December 2007 announced that KNM International Sdn Bhd (KNMI) (a wholly owned subsidiary of KNM) proposed to acquire 80% equity interest in HZM Companies (HZM Companies) for a total consideration of Brazilian Real 27 million.

The proposed acquisition is subject to:-

- (a) The purchaser and the vendors enter into a definitive Sale and Purchase Agreement;
 - (b) Completion of legal and financial due diligence on HZM Companies to the satisfaction of the Purchaser
 - (c) Completion of fixed assets valuation of HZM Companies to be carried out by an independent professional valuer acceptable to the Purchaser’s advisors;
 - (d) Shareholders’(if necessary) and Board of Directors’ approval of the Purchaser
 - (e) Regulatory approvals in Malaysia, Brazil and elsewhere (if required), including approvals of other relevant authorities, where applicable.
- (7) KNM Group Berhad had on 4 September 2007 announced that proposed acquisition by KNM of 100% equity interest in Pisces Engineering Sdn Bhd (**Pisces**) comprising 500,000 ordinary shares of RM1.00 each for a total cash consideration of up to RM50.0 million (**Consideration**).

The proposed acquisition is subject to:-

- (a) the completion of due diligence to be carried out by KNM and its advisers, with results satisfactory to KNM at its sole discretion
- (b) the signing of a definitive agreement by KNM and the Vendor for the sale and purchase of the Sale Shares within 45 days from this agreement, or such other period as agreed by the parties;
- (c) the approvals of the Foreign Investment Committee and/or Ministry of International Trade and Industry; and
- (d) the approvals of other relevant authorities, where applicable.

The Consideration shall be paid as follows -

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- (i) RM25,000,000.00 upon fulfillment of the following conditions -
- (aa) the shareholders' funds of Pisces for the financial year ended 31 December 2006 is not less than RM15.6 million, including cash and/or cash equivalents of not less than RM10.3 million with licensed financial institutions before any revaluation of assets, and a net profit after tax of not less than RM 6.5 million; and
 - (bb) the shareholders' funds and net profit after tax of Pisces as set out in its latest management accounts shall not less than RM19.6 million and RM4.0 million respectively, as at 30 June 2007.
- (ii) RM12,500,000.00 upon Pisces achieving a net profit after tax of not less than RM8.0 million for the financial year ended 31 December 2007, based on the audited accounts of Pisces.
- (iii) RM12,500,000.00 upon Pisces achieving a net profit after tax of not less than RM8.5 million for the financial year ended 31 December 2008, based on the audited accounts of Pisces.

The definitive agreement for the sale and purchase of 100% equity interest in Pisces is being finalised.

- (8) KNM Group Berhad had on 12 April 2007 announced that KNM International Sdn Bhd (KNMI), a wholly owned subsidiary of the Company had on 12 April 2007 entered into a Joint Venture and Shareholder Agreement (JVA) with Themar Aqaria Ltd Co, a company based in Saudi Arabia, to design, manufacture, fabricate, construct, assemble, commission and maintain process equipment for the oil, gas and petrochemicals industries.

KNMI and Themar shall incorporate and subscribe for shares in a joint venture company (JVC) which will undertake the Business. The JVC shall be known as Saudi KNM Ltd, or such other name approved by KNMI and the relevant authority in Saudi Arabia.

51% equity interest in the JVC will be held by KNMI (KNMI Shares) and 49% equity interest will be held by Themar.

- (9) KNM had on 30 May 2006 entered into a Memorandum of Agreement (MOA) with Sofinter to set out the commercial terms by which the parties propose to enter into joint ventures in respect of the Boiler Business which will involve the incorporation of a joint venture company in Malaysia (MJVCO) and a joint venture company in China (CJVCO).

The Joint Venture Agreement for MJVCO is being finalised. The CJVCO is in the process of incorporation. The parties are actively promoting the business including submission of tenders.

B9. Group borrowings and debt securities

The Group's borrowings as at the end of the reporting period were as follows:

	RM '000
Short term:	
Borrowings (secured)	4,901
Borrowings (unsecured)	8,955
ICP/IMTN	200,000

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Bank Overdraft	6,361
Hire purchase liabilities	-
	<u>220,217</u>
Long term :	
Borrowings (secured)	39,148
Borrowings (unsecured)	5,859
	<u>45,007</u>
	<u>265,224</u>

The above inclusive of borrowing in foreign currency of RMB14.75 million and EURO10.68 million.

The Exchange rates used are 1 RMB = RM 0.4545, and 1 EURO = RM4.8827

B10. Off balance sheet financial instrument

There was no material financial instrument with off balance sheet risk as at the end of the period under review other than the following.

Forward foreign exchange contracts expiring:-

Currency	Contract Amount '000	Equivalent Amount in RM'000
USD	113,914	381,203
GBP	2,041	13,658
EURO	30,080	140,903
SGD	1,217	2,814
AUD	3,488	10,866
JPY	155,584	4,498
RM	93,530	89,547
INR	8,500	684
		<u>644,173</u>

Operation foreign exchange exposure on asset and liabilities are hedged accordingly on timely basis to protect its underlying values.

There are no significant credit and market risks posed by the above off balance sheet financial instruments.

B11. Changes in material litigation

As at the date of this announcement, there were no changes in material litigation since the last annual balance sheet date.

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B12. Dividend payable

The Board of Directors has approved an interim dividend in respect of the financial year ending 31 December 2007.

Amount per share : 4 sen less income tax of 27%
 Date payable : 18 April 2008

In respect of deposited securities, entitlement to dividends will be determined on the basis of the record of depositors as at 3 April 2008.

B13. Earnings per share

	Individual Quarter		Cumulative Quarter	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
(a) Basic earnings per share				
Net Profit attributable to shareholders (RM'000)	51,932	25,020	188,326	132,506
Number of shares at the beginning of the period ('000)	257,782	149,612	257,782	149,612
Effect of ESOS ('000)	3,338	3,125	3,338	3,125
Effect of Private Placement ('000)	-	6,851	-	6,851
Effect of Bonus issue ('000)	259,046	344,274	259,046	344,274
Effect of Share Split ('000)	518,092	518,092	518,092	518,092
Weighted average number of shares ('000)	1,038,258	1,021,954	1,038,258	1,021,954
Basic earnings per share (sen)	5.00	2.45	18.14	12.97

	Individual Quarter		Cumulative Quarter	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
(b) Diluted earnings per share				
Net Profit attributable to shareholders (RM'000)	51,932	25,020	188,326	132,506
Weighted average number of shares as per above ('000)	1,038,258	1,021,954	1,038,258	1,021,954
Number of shares under ESOS ('000)	24,597	36,406	24,597	36,406
Number of shares would have been issued at fair value ('000)	(1,693)	(6,470)	(1,693)	(6,470)

Weighted average number of shares - diluted ('000)	1,061,162	1,051,890	1,061,162	1,051,890
Fully diluted earnings per share (sen)	4.89	2.38	17.75	12.60

The comparative basic and diluted earnings per share have been restated to take into account the effects of bonus issue and share split.

B14. Authorisation for issue

The interim financial report was authorised for issue by the Board of Directors in accordance with a Board of Directors meeting held on 26 February 2008.